

CITY OF PUYALLUP
Pierce County, Washington
January 1, 1992 Through December 31, 1992

Schedule Of Findings

1. Internal Controls Over The Payroll System Need To Be Improved

Staff duties and responsibilities for payroll are not properly segregated. The payroll clerk has control over the payroll process from entering each of the employee's time to disbursement of signed payroll checks. The payroll clerk has the ability to authorize, approve, and record transactions as well as issue assets and make payments. All payroll related correspondence is sent directly to the payroll clerk, which allows problems to be hidden from supervisors.

As a result of the weaknesses identified above the following occurred:

- a. Western Life Insurance Company, which covers disability insurance for the city, had not received a check in 18 months; therefore, the fire fighters' and police officers' disability insurance had been terminated since September 1, 1991. Coverage subsequently has been reinstated.
- b. Standard Insurance Company's records reflect discrepancies in the premium payments. As of June 5, 1993, the outstanding check register at the city reported a total of 21 checks outstanding totaling \$26,934.01. On July 7, 1993, the insurance company threatened loss of coverage if the bills were not paid by July 12, 1993.
- c. The Washington State Department of Retirement Systems' records reflect discrepancies in the March 1989 and 1992 billing obligations. If these payments are not made within 15 days of the notice (dated July 2, 1993), then it will be turned over to the Department of Retirement Systems' legal department and penalties and interest will be assessed.
- d. The United States Social Security Administration's records reflect discrepancies in the Taxed Earnings and the Estimated Taxes Paid for the years 1989 through 1992.

The discrepancies noted above occurred and were not caught and resolved in the normal course of business. The city is exposed to potential legal action from the benefit companies and employees.

We recommend the payroll function be properly segregated:

- a. The employee entering time sheet information and performing personnel changes should not have access to the signed checks.
- b. The accounts payable clerk should assume the responsibilities of disbursing the checks to the various companies paid out of employee deductions.

- c. Correspondence should be sent directly to the finance director so that statements can be examined for arising problems.